

***United States Court of Appeals
for the Second Circuit***



**APPELLANT'S
BRIEF**

APPEAL NOS.

74-2315
75-7106

IN THE

United States Court of Appeals

FOR THE SECOND CIRCUIT

BRIAN S. JONES, as Receiver for PERMADENT PRODUCTS
CORP.,

Appellant,

- against -

CERAMCO, INC., a corporation of the State of New York; H.
GORDON PELTON, IRVING KLAUS, JOHN H. LEATHER-
MAN, and NORMAN LEVINE,

Appellees.

*On Appeal from the United States District Court for the
Eastern District of New York*

BRIEF FOR APPELLEES

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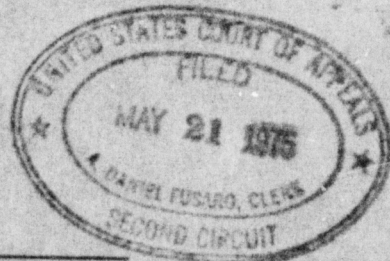


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BRIAN S. JONES, as Receiver for
PERMADENT PRODUCTS CORP.,

Plaintiff-Appellant,

-against-

Appeal Nos. 74-2315
75-7106

CERAMCO, INC., a corporation of the
State of New York; H. GORDON PELTON,
IRVING KLAUS, JOHN H. LEATHERMAN
and NORMAN LEVINE,

Defendants-Appellees.

BRIEF FOR DEFENDANTS-APPELLEES

PRELIMINARY STATEMENT

Plaintiff's "Statement of Facts" (Brief for Appellant, pp. 3-7) leaves out many material facts relevant to the issues presented for review. Also, although several facts relevant to the Court's review of this case are included in plaintiff's "Statement of Facts," plaintiff has asserted the erroneous rationale that all of the allegations in the Complaint must be taken to be correct and thus has erroneously relied upon such allegations as statements of fact.

The "Issues Presented for Review" in plaintiff's Brief also are inadequate and a better statement of the issues to be decided by this Court are set forth below.

ISSUES PRESENTED FOR REVIEW

1. Whether plaintiff's claim for patent infringement is barred by laches and estoppel.
2. Whether the plaintiff's failure for eleven and one-half years to notify the defendants that they allegedly infringed the patent bars the plaintiff from all relief.
3. Whether the existence of a cloud on the title to the patent is a sufficient excuse to justify laches and estoppel.
4. Whether plaintiff's claim for misappropriation of trade secrets is barred by laches, estoppel and/or the statute of limitations.

SUPPLEMENTAL STATEMENT OF FACTS
RELEVANT TO THE ISSUES

The patent in suit, U. S. No. 3, 052, 982, issued on September 11, 1962, and the Complaint was filed on March 22, 1974 (App. 3 18). Thus, approximately eleven and one-half years passed from the time the '982 patent issued until the present suit was commenced.

Plaintiff never charged the defendants with infringement of the '982 patent. This is confirmed by the affidavit of

H. Gordon Pelton, President of defendant Ceramco and by the written acknowledgement of plaintiff's attorney (App. 104, 131).

Plaintiff was well aware from as early as 1959 or 1960 that defendant Ceramco was making and selling materials accused to infringe the '982 patent in suit. Plaintiff's early knowledge of the materials defendant Ceramco was producing and selling is ascertainable first of all from plaintiff's own pleadings. Paragraph 18 of the Complaint (App. 3) alleges that the defendants were directly competing with Permament in April, 1959 by manufacturing, selling and distributing the same materials as used in the Permament tooth construction.

Also, it was well known in the industry at that time that defendant Ceramco was selling porcelain materials for tooth construction, as evidenced by the 1960 published paper of Dr. John F. Johnson which appeared in "Porcelain Veneers", Vol. 26, No. 11 (App. 90). Further, plaintiff has admitted in a co-pending suit against one of defendant Ceramco's customers* that all of the facts relied upon for the charge of infringement resulted from the "intimate

*Jones, as Receiver for Permament v. County Dental Porcelain Laboratory, Civil Action No. B-74-2, filed January 2, 1974 in the United States District Court for the District of Connecticut (App. 97).

and longstanding involvement" in the field of John Weber, President of Permament (App. 97, 101).

Since plaintiff was aware of the materials defendant Ceramco was producing and selling in 1959 and 1960, it is clear that plaintiff was as equally aware in 1962 when the '82 patent issued and throughout the 1960's and 1970's.

Plaintiff was appointed receiver for Permament in April, 1961 (App. 46). In an assignment executed on October 22, 1959 and recorded in the Patent Office on October 5, 1962, the patent in suit was assigned to Permament (App. 55, 66). Thus, Permament has been the record owner of the '82 patent from shortly after the date it issued and plaintiff has been in a position to assert the patent against any alleged infringers throughout the eleven and one-half year period involved in this case.

The business of defendant Ceramco prospered, expanded and increased substantially from 1959 to 1974. As a result, Ceramco was purchased by Johnson & Johnson for many millions of dollars (App. 10-11, 86-87). That purchase took place only shortly prior to commencement of the present action.

The allegations in plaintiff's Complaint relative to the alleged bad faith and improper actions by defendants were denied by the defendants in their Answer (App. 83) and cannot be taken to be

correct and relied upon as assertions of fact. This case does not involve a motion for a judgment on the pleadings under Rule 12(c), Fed. R. Civ. Proc., where the moving party implicitly admits the truth of the adversary's allegations. Instead, the motion was brought under Rule 12(b) and was essentially treated as a motion for summary judgment by the Trial Court. As such, the Trial Court found that there were not any issues of material fact relative to plaintiff's delay, the alleged excuse therefore, and defendant's prejudice and change of position.

ARGUMENT

THE DOCTRINES OF LACHES AND ESTOPPEL APPLY IN THIS CASE AND BAR THE PLAINTIFF FROM PROSECUTING THE DEFENDANTS FOR ALLEGED INFRINGEMENT

1. In General

Plaintiff does not dispute that the doctrine of laches is applicable to patent cases in which a patent owner has acquiesced for a long period of time in the infringement of its patent rights or has delayed without legal excuse the prosecution of those who have openly violated it. The rationale for the laches doctrine is succinctly stated in Westco-Chippewa Pump Co. v. Delaware Electric & Supply Co., 64 F.2d 185, 186 (3d Cir. 1933);

"[I]t does not seem equitable for a person with full knowledge to sleep on his rights for seven years and thus lead another to think that he is safe in following his counsel's advice that he may manufacture a proposed device with impunity, and then, when he has made large investments and built up a good business, punish him and innocent investors for doing what might have been prevented by timely action on the part of the patentee."*

In general, laches and estoppel require that there be an unreasonable and unexcusable delay on the part of the patent owner resulting in prejudice or injury to the accused infringer. ** The Trial Court's findings came within this rule and should be affirmed.

2. Laches And Estoppel As Applied In This Circuit

In the recent case of Esco Lighting Co. v. Lighting Services, Inc., 178 U.S.P.Q. 191 (S.D.N.Y. 1973), the New York District Court held that the doctrine of laches and equitable estoppel applied to an eight year delay in instituting a patent infringement

*This rationale was quoted with approval in American Home Products Corp. v. Lockwood Mfg. Co., 483 F.2d 1120, 1123-1124 (6th Cir. 1973) and Baker Mfg. Co. v. Whitewater Mfg. Co., 430 F.2d 1008, 1011-1012 (7th Cir. 1970).

**See, for example, Sobosle v. United States Steel Corp., 359 F.2d 7, 12 (3d Cir. 1966), Russell v. Todd, 309 U.S. 280, 287 (1939), Technitrol, Inc. v. Memorex Corp., 376 F.Supp. 828, 830-831 (N.D. Ill. 1974).

suit. The Court observed that under the test enunciated by the Second Circuit Court of Appeals in Royal-McBee Corp. v. Smith-Corona Marchant, Inc., 295 F.2d 1 (2d Cir. 1961), the controlling authority in this Circuit, the delay caused by plaintiff must operate as a bar to all relief sought. The Esco decision is consonant with the earlier ruling in Smith v. Sinclair Refining Co., 257 F.2d 328 (2d Cir. 1958), holding that laches applied to a delay of fourteen years in instituting a patent infringement suit.

Accordingly, the law in this Circuit is that the doctrine of laches and estoppel applies to unreasonable periods of delay, for example, upwards of eight years, prior to bringing a patent infringement suit.

3. The Delay Is Unreasonable

The fact that the delay in this case is unreasonable is not seriously contested by the plaintiff. Approximately eleven and one-half years passed from the time the '982 patent issued on September 11, 1962 until the present suit was commenced on March 22, 1974.

Plaintiff was aware of the defendant's alleged infringing activities from as early as 1959 when the individual defendants founded defendant Ceramco and went into competition with Permament. That knowledge existed throughout the 1960's and 1970's.

Permament has been the owner of the patent in suit from well before it issued and the record owner thereof from shortly after the date it issued. Plaintiff was appointed receiver for Permament in 1961 and thus was in a position at all times to assert the patent against any alleged infringers.

4. Plaintiff's Delay Was Prejudicial And
Injurious To The Defendants

It is also not seriously contested that the delay was prejudicial and harmful to the defendants. Plaintiff had knowledge of the defendants' accused activities since at least 1959 -- well before the patent issued. The defendants were led to believe by the plaintiff's silence and inaction for over eleven and one-half years that plaintiff would not attempt to sue for infringement. As a result of plaintiff's silence and inaction, defendants changed their course of conduct and took steps they might not have otherwise taken. In this regard, defendants significantly expanded and increased their business throughout the 1960's. Then, in 1973 defendant Ceramco was sold to Johnson & Johnson for many millions of dollars.

Moreover, there is a presumption of harm to the defendants because the delay involved is more than six years, Baker Mfg. Co. v. Whitewater Mfg. Co., 430 F.2d 1008 (7th Cir. 1970), Technitrol, Inc. v. Memorex Corp., 376 F.Supp. 828, 831 (N.D.

Ill. 1974). The Trial Court recognized and applied that presumption in the January 7, 1975 decision (App. 121).

5. Plaintiff's Alleged Excuse

Plaintiff asserts that the delay in this case is excusable due to an alleged cloud on the title to the patent in suit. It is not necessary to discuss the sufficiency of that excuse at this point (it is discussed in detail, infra) as the Trial Court held that the plaintiff's complete silence and inaction relative to the defendants, including the failure to notify them of infringement, barred all relief (App. 117-122).

THE FAILURE TO GIVE ANY NOTICE OF
INFRINGEMENT TO THE DEFENDANTS BARS
ANY EXCUSE THAT PLAINTIFF MAY
HAVE HAD FOR THE DELAY

The plaintiff never charged the defendants with infringement of the '982 patent until this action was started in 1974. The Trial Court held that the failure to give such notice -- regardless of the alleged controversy regarding title to the '982 patent -- was fatal to the claim that the plaintiff should be excused from the eleven and one-half year delay. This holding follows the recent judicial trend and is fully supportable by the cases relied upon in the January 7, 1975 decision (App. 117-122).

The Courts are carefully scrutinizing patent owners'

excuses for long delays in filing suit against accused infringers. This is understandable in view of the monopoly power and advantageous position in the marketplace that patents afford. Patent owners, with full knowledge of the accused infringer's activities, cannot be allowed to sit back, wait until the success of the accused parties' efforts has been ascertained, and then institute suit in an attempt to secure a part of that success. The patent owners must put the accused infringers on notice within a reasonable time and thereafter take sufficient steps to enforce the patent rights -- or they should be forever barred from contesting the accused infringer's use of the product or process in question.

American Home Products Corp. v. Lockwood Mfg. Co., 483 F.2d 1120 (6th Cir. 1973) is one of the leading cases showing the judicial attitude toward long delays by patent owners. In American Home, the patent owner attempted to use the "other litigation" doctrine to excuse a delay of over ten years from the time that a notice of infringement was sent until legal action was commenced. The Sixth Circuit Court of Appeals held that there were not any "automatic" excuses for delays in bringing suit, but that each situation must be reviewed separately and a determination made whether the reasons for the delay in each particular situation were excusable.

The Court in American Home stated that if a patent owner was temporarily delayed in proceeding against an accused infringer, but at a later date intended to press its claim, then a duty existed to put that accused infringer on notice that a suit would be filed against him when the reason for the delay had disappeared. In this regard, the Court opined, 483 F.2d at 1123:

"But if Ekco had intended to press its claim after the Chicago litigation, it surely would have (or should have) found time to send Lockwood a simple letter to that effect.

This notification is important, partly because it puts the accused infringer on notice that a suit will be filed against him on this issue, and partly because it permits him to bring a declaratory judgment action if the delay in waiting for a judicial determination would be a burden upon his proposed operation." (Emphasis added.)

The Court also rejected the argument that the accused infringer might have been aware of the patent involved and the position of the patent owner. 483 F.2d at 1124:

"However, the knowledge of the other litigation is not the important factor; the point is that Ekco never asserted to Lockwood that it intended to file similar litigation against it at the conclusion of the Chicago litigation. Had such notice been made by Ekco at any time during the pendency of that litigation, until 1963, the company would have been informed of the threat of litigation on this process and

this particular product, and the company could have taken steps to mitigate any losses which might result from an adverse result in such a suit. "

The damage and prejudice to the accused infringer due to the lack of notice of infringement was discussed by the Court of Appeals in American Home with reasoning which is equally applicable to the present situation:

"The damage resulting to Lockwood by the failure of Ekco to inform it of the threat of litigation is most clearly demonstrated by an interim transaction. On February 25, 1965, all of the assets of the Lockwood Company were sold to new owners. As a part of this transaction, the sellers were requested by the purchasers to list all pending and threatened law suits against the company. Although various unrelated matters were listed, including one involving Ekco, no mention of this patent dispute was made. This failure to include this dispute in the list of threatened litigation indicates the reliance which Lockwood had placed upon Ekco's failure to assert this cause of action against it, even in the most informal manner. In reliance upon this silence, the purchasers of the Lockwood Company were deprived of the opportunity to consider the effect which this litigation might have upon the company, and unaware of any claim against the company, built up the business by expanding the operations of the company using the contested product and process. See Anchor Stove & Range Co. v. Montgomery Ward & Co., supra, at 895." 483 F.2d at 1124. (Emphasis added.)

Other cases which follow the rationale of American Home and which were cited and followed by the Trial Court are Technitrol, Inc. v. Memorex Corp., supra, and Siemens Aktiengesellschaft v. Beltone Electronics Corp., 381 F.Supp. 57 (N. D. Ill. 1974). The Technitrol case, like the American Home case, involved an excuse based on "other litigation"; the Siemens v. Beltone case involved an excuse based on a specialized administrative proceeding. Even though these cases did not involve excuses based on a cloud to title, the Trial Court found that the same rationale applies. The plaintiff had a duty to notify the defendants that they allegedly infringed the '982 patent and that legal action would be taken against them if and when the plaintiff acquired free and clear title to the patent.

A prompt notice of infringement to the defendants would have informed them that a suit against them might be filed in the future. A number of avenues then would have been opened to defendants by which they could have protected themselves. The defendants could have brought a declaratory judgment action under 28 U. S. C. 2201. Notification also may have prompted the defendants to re-evaluate their position and possibly modify the production, sale and distribution of the accused materials. Any subsequent decision by the defendants would have been made with full knowledge of the risk

of litigation involving such materials and the defendants could have taken steps to mitigate any losses attendant upon an adverse result in such a suit. Thus, notice would have been an important factor in the defendant's subsequent business activities and possibly in the purchase of Ceramco by Johnson & Johnson.

THE TRIAL COURT'S DECISION CAN BE
OVERTURNED ONLY IF IT IS SHOWN
TO BE CLEARLY ERRONEOUS

A decision on the issue of laches is addressed to the sound discretion of the trial judge. Thus, the decision can be overturned only if it was so clearly erroneous as to amount to an abuse of discretion. The rule is succinctly stated in American Home Products Corp. v. Lockwood Mfg. Co., supra, 483 F.2d at 1124:

"As an issue of fact, a finding of laches cannot be disturbed unless it has been shown to be clearly erroneous. General Electric v. Sciaky Bros., supra, Rule 52(a) F.R. Civ. P., and as a question addressed to the discretion of the District Court, it will not be disturbed unless an abuse of discretion has been shown. City of Erlanger v. Berkemeyer, 207 F.2d 832 (6th Cir. 1953); Baker v. Whitewater, supra, at 1009; Gillons v. Shell, 86 F.2d 600, 611 (9th Cir. 1936)."

Accord, Baker Mfg. Co. v. Whitewater Mfg. Co., supra, 430 F.2d at 1009.

The Trial Court indicated in both opinions that it was

very concerned about the eleven and one-half year delay before suit was filed to enforce the '982 patent (App. 73, 117). When it found that the plaintiff had not given notice of infringement to the defendants and did not have a valid reason for not giving such notice, the plaintiff's attempt to excuse the delay was denied. The Court noted that the defendants had substantially changed their position during the period, and moreover, were presumed to have been injured by the delay.

Nothing the plaintiff asserts on appeal shows that the Trial Court's decision is clearly erroneous or constitutes an abuse of discretion. Everything plaintiff asserts was raised below in opposition to the motion to dismiss and thus was fully considered by the Trial Court.

Since the delay involved is more than six years, the delay is unreasonable and is presumed to have injured the defendants, Baker Mfg. Co. v. Whitewater Mfg. Co., supra, General Electric Co. v. Sciaky Bros., Inc., 304 F.2d 724 (6th Cir. 1962), Technitrol, Inc. v. Memorex Corp., supra, Siemens Aktiengesellschaft v. Beltone Electronics Corp., supra, Bodine v. United Geophysical Corp., ____ F.Supp. ____ (C.D. Cal. 1975). * The burden is on the plaintiff

*Reported in BNA PTC Journal, No. 227, May 8, 1975.

to justify the delay and that burden has not been met.

PLAINTIFF'S EXCUSE FOR THE ELEVEN AND
ONE-HALF YEAR DELAY IS INSUFFICIENT

1. The Existence Of A Cloud On Title
Is Not Sufficient

Even if a legitimate cloud on the title to the '982 patent existed, such an excuse is not a sufficient reason for not applying the doctrine of laches. The law is clear that the legal titleholder of a patent may bring suit for infringement without being required to join others who have a claim of equitable ownership. The legal titleholder is the only "necessary party", Sigma Engineering Service, Inc. v. Halm Instrument Co., 33 F.R.D. 129 (E.D.N.Y. 1963), Berghane v. Radio Corp. of America, 6 F.R.D. 561 (D.Del. 1947).

The fact that others may have had an equitable interest in the patent is immaterial. A defendant charged with infringement may not even raise this issue, Sigma Engineering Service, Inc. v. Halm Instrument Co., supra, Berghane v. Radio Corp. of America, supra. Thus, plaintiff cannot use this as an excuse for not asserting the rights of Permament in the '982 patent.

Furthermore, any equitable owner is permitted to intervene in a suit brought by the legal title owner. In this manner, all third party claimants would be protected, Kimberly Corp. v.

Hartley Pen Co., 237 F.2d 294 (9th Cir. 1956), Sperry-Rand Corp. v. Control Data Corp., 319 F.Supp. 629 (D. Md. 1970). Thus, if the plaintiff had been concerned by the threat of the Trustee in Bankruptcy for the Estate of Weinstein, as plaintiff states in the brief to this Court (Brief for Appellant, pp. 6-7), then the proper procedure would have been to bring suit joining the third party claiming ownership as a co-plaintiff or asking him to intervene. A judicial determination then could have been made as to the ownership of the patent and the issue of infringement could have been decided at the same time.

Even if the plaintiff had only an equitable interest in the '982 patent during the 1960's, he still could have and should have maintained an action or asserted the patent. An equitable owner can maintain an action for infringement, Papazian v. American Steel and Wire Co. of New Jersey, 155 F.Supp. 111 (N. D. Ohio 1957). In fact, it is the duty of an equitable owner to force the legal titleholder to bring suit, or failing that to bring it himself. The Court of Appeals in Continental Coatings Corp. v. Metco, Inc., 464 F.2d 1375 (7th Cir. 1972) specifically admonished a party for not following that procedure.

Any delay due to the title dispute was caused by plaintiff and his assignors and their own transfer of title among themselves.

When the delay is due to fault of the plaintiff, any excuse based thereon should be given little weight. Defendants should not be penalized by any internal Permament squabbles which may have caused plaintiff to believe he did not have clear title to the patent.

Plaintiff relies on three cases for the proposition that "all courts have found that where title was clouded, a defense of laches or estoppel should not be granted" (Brief for Appellant, pp. 10-12). None of these cases, however, provide sufficient reason or authority for plaintiff's claim and all are distinguishable from the present situation. The better rule is set forth above.

In Taylor Engines, Inc. v. All Steel Engines, Inc., 192 F.2d 171 (9th Cir. 1951), cited in the Brief for Appellant, p. 10, the purported owner clearly did not have record title to the patent and the accused infringer had knowledge of the court proceedings involving the title question. In contrast, in the present situation, Permament was the record owner of the '982 patent from 1962 on and the defendants did not have any knowledge of the alleged controversy relative to title of the patent.

In Berry v. Bohn Aluminum & Brass Corp., 29 F. Supp. 516 (E. D. Mich. 1939), rev'd., 124 F.2d 865 (6th Cir. 1942), the title question involved an interference proceeding in the Patent Office, the delay involved was only six or seven years, and the

Court's discussion of the matter was dicta. And, in Skinner v. Dow Chemical Co., 90 F.Supp. 877 (E.D. Mich. 1950), rev'd., 197 F. 2d 807 (6th Cir. 1952), the purported owner had assigned the patent to another (thus was not record owner), the delay involved was on the order of eight years, and no showing was made that the accused infringer had relied upon or been prejudiced by the conduct of the plaintiff therein. Also, the holdings of the District Courts in Berry and Skinner that plaintiff relies upon are questionable in view of the reversals of both decisions by the Sixth Circuit Court of Appeals and further in view of the recent American Home decision.

2. Plaintiff Has Not Proceeded Diligently

Plaintiff contends that he has "acted in a most diligent fashion" in seeking to enforce the rights of Permament (App. 44-45). However, several periods of years involved in this case are devoid of activity or have been broadly covered by a sweeping conclusionary statement of activity without facts to support them.

First, insufficient excuse is given for plaintiff's inability to assert the '982 patent against defendants from 1962 to 1968 when the first opinion of counsel was rendered relative to the possible cloud on title (App. 66). This hiatus raises the inference that the alleged cloud on title was not even recognized as a possible problem until five or six years after the patent issued. The primary

excuse that plaintiff has offered is lack of funds, but it is well established that such an excuse is not sufficient to justify an unreasonable delay, Esco Lighting Co. v. Lighting Services, Inc., supra, Whitman v. Walt Disney Productions, Inc., 148 F. Supp. 37, 40 (S. D. Cal. 1957), aff'd., 263 F.2d 229 (9th Cir. 1958), Technitrol, Inc. v. Memorex Corp., supra.

Secondly, insufficient reason is given why it took approximately three years -- from January, 1969 when the second opinion of counsel was secured, to April, 1972 when the court order was secured -- to negotiate a settlement of the title controversy and apply for and secure a court order which allegedly "perfected" the title in the '982 patent in plaintiff. Thirdly, insufficient excuse has been offered relative to the final two year delay involved before the present action was commenced. Plaintiff asserts that he secured "free and clear title" to the patent in suit on April 20, 1972 and yet the present Complaint was not filed until March 22, 1974. This last delay accents the fact that it was the purchase of defendant Ceramco by Johnson & Johnson which led to the filing of the present suit and not the "diligent efforts" to enforce the '982 patent against alleged infringers.

Plaintiff's sporadic activity over eleven and one-half years, highlighted by three lengthy periods of inactivity, does not

show diligence at all. If plaintiff had been proceeding in a diligent fashion, it is obvious that the unexplained lengthy time periods mentioned above would not have occurred.

As each of these lengthy periods of inactivity passed, the defendants relied more and more on the plaintiff's silence and inactivity. The defendants expanded their business throughout these periods and permanently changed their course of conduct. Thus, as each of the periods passed, it became more and more prejudicial and inequitable to hold them accountable to plaintiff for any relief.

THE TRIAL COURT PROPERLY BARRED
PLAINTIFF FROM ALL RELIEF

There is a distinction which is often overlooked between laches and estoppel and between past and future damages. The leading case in this Circuit on the doctrine of laches and estoppel, Royal-McBee Corp. v. Smith-Corona Marchant, Inc., supra, clearly points this out. The facts of the present case, however, show that the standards requiring a complete bar of all relief are satisfied. The Lower Court's decision thus is in accordance with the appropriate authorities and should be affirmed.

The Second Circuit Court of Appeals in Royal-McBee stated that:

"Delay alone might be a complete bar if, in reliance upon it, the alleged infringer

has so far changed its position as to make relief in futuro inequitable." 295 F.2d at 5.

This sets forth the standard rule of estoppel which also is set forth in Continental Coatings Corp. v. Metco, Inc., supra, 464 F.2d at 1379-1380.

The facts before the Court in Royal-McBee were not sufficient to show that the alleged infringer had in fact changed his position in reliance on the delay. The accused infringer could only show that he had made certain advertising expenditures and had secured increased publicity during the delay. The facts of the present case, however, clearly show that the defendants substantially changed their position during the period from 1962 to 1974. Defendant Ceramco was founded in 1959, yet, due to increased sales, construction and capital acquisitions, had a value of several million dollars by the early 1970's when it was purchased by Johnson & Johnson. Indeed, the sale to Johnson & Johnson alone is sufficient to show that the defendants, in reliance upon the silence and inaction of the plaintiff, have changed their position to such a substantial extent as to make any relief to the plaintiff inequitable.

In Esco Lighting Co. v. Lighting Services, Inc., supra, the test enunciated in Royal-McBee was followed and a delay of eight years was held to constitute both laches and estoppel and a bar to all relief sought. The New York District Court found that it would

have been "highly inequitable" to award either damages or injunctive relief since the alleged infringer, in reliance upon the patent owner's silence, had expended substantial amounts to improve his production facilities so as to increase future earnings.

The plaintiff herein also argues that the defendants' alleged misconduct and lack of good faith, particularly in view of the effect thereof on Permament, should prevent the full application of both laches and estoppel. A similar argument was summarily rejected in Esco, however, with reasoning which is equally applicable to the present situation. The Court opined, 178 U.S.P.Q. at 192:

"It is not important that defendant has profited from sales of the allegedly infringing lighting fixtures over the period of delay. The defenses of laches and estoppel do not depend on the defendant's losing money. E.g. Continental Coatings Corp. v. Metco, Inc., 464 F.2d 1375, 174 USPQ 423 (7th Cir. 1972)."

Similarly, the plaintiff's assertion that it is willing to grant licenses is irrelevant. The defendant's change of position in reliance on plaintiff's unexcusable delay bars all right to relief.

Foster v. American Machine & Foundry Co., 492 F.2d 1317 (2d Cir. 1974) and Minnesota Mining and Mfg. Co. v. Berwick Industries, Inc., 373 F.Supp. 851 (M.D. Pa. 1974), both cited in

the Brief for Appellant (pp. 17, 19), do not suggest a different result. The Foster case did not involve an issue of laches or estoppel. In the Berwick case, the Pennsylvania district court denied a defense of estoppel because it found that the accused infringer had never been aware of the patents in suit and thus could not have changed its position in reliance on the patent owner's acquiescence, silence or misleading conduct. In the present case, however, the defendants have had knowledge of the patent in suit from its issuance (App. 6, 85).

PLAINTIFF'S CLAIM FOR THEFT OF TRADE
SECRETS IS BARRED BY LACHES, ESTOPPEL
AND/OR THE STATUTE OF LIMITATIONS

1. Laches And Estoppel

Plaintiff has not offered any valid reason for the delay involved in bringing an action against the defendants for the alleged theft and misappropriation of Permament's trade secrets. The delay involved has been unreasonable, the defendants have changed their position in reliance on the plaintiff's inaction, and the defendants have been prejudiced. The same reasons set forth above which support the application of laches and estoppel to the patent infringement claim are equally applicable relative to the cause of action for theft of trade secrets.

The plaintiff and his predecessor, Permament, have known since the individual defendants left the employ of Permament

and founded Ceramco in 1959 that the defendants were producing and selling the same materials as used in the Permament tooth construction. The present claim for theft of trade secrets relative to the Ceramco tooth construction materials, however, was not instituted until long after Ceramco was prosperous and until after Johnson & Johnson acquired all of its stock. Plaintiff's conduct certainly lulled the defendants into the belief that plaintiff had no complaint against them as alleged in the second count and the defendants clearly changed their course of conduct as a result of the silence by plaintiff. Under the doctrines of equitable estoppel and laches discussed above, the approximately fifteen year delay is unreasonable, the defendants were prejudiced thereby, and the plaintiff's cause of action is barred.

The plaintiff's excuse for the delay in asserting the second cause of action is the alleged cloud on the title to the '982 patent, as discussed above. However, exactly how the controversy relating to the title of the patent prevented the plaintiff from asserting the trade secret claim, is not clear. Plaintiff makes several conclusionary statements in this regard and attempts to connect the two claims, but does not set forth a plausible or sufficient causal connection.

Indeed, if in fact the claims for theft of trade secrets

and for patent infringement are directed toward the same subject matter and the same accused acts of defendants, then the trade secret claim must be dismissed. The issuance of the patent in 1962 disclosed all of the alleged trade secrets. Tempo Instrument, Inc. v. Logitek, Inc., 229 F.Supp. 1 (E.D.N.Y. 1964), Picard v. United Aircraft Corp., 128 F.2d 632 (2d Cir. 1942), Pennington Engineering Co. v. Houde Engineering Corp., 136 F.2d 210 (2d Cir. 1943), Conmar Products Corp. v. Universal Slide Fastener Co., 172 F.2d 150 (2d Cir. 1949).

If, on the other hand, the two claims are not related, then whatever title controversy might have existed relative to the '982 patent cannot be used as an excuse for the failure to promptly prosecute the trade secret claim. Plaintiff cannot have it both ways.

Moreover, on May 25, 1936, all of the assets which Permadent had transferred to another company in 1959 were retransferred back to plaintiff as Receiver (App. 42; Brief for Appellant, pp. 5-6). The plaintiff was incontestably free to assert and prosecute a claim for alleged theft of trade secrets from and after that date. The delay of approximately eight years from that time until commencement of suit in 1974 is totally inexcusable.

The Trial Court's opinion dismissing the second count of the complaint took all of these factors into account and held that

the claim was barred under the doctrines of equitable estoppel and laches (App. 79-80). Plaintiff has not offered sufficient reasons for reaching a different conclusion and the Trial Court's decision should be affirmed.

In this regard, the Trial Court's decision on laches involved a question of fact. As such, it cannot be overturned unless it is shown to be so clearly erroneous as to constitute an abuse of discretion, see American Home Products Corp. v. Lockwood Mfg. Co., supra, and the discussion above at pages 14-16.

2. The Statute Of Limitations

Regardless of whether plaintiff's alleged claim for theft of trade secrets arose in 1959, in 1966, or at any date therebetween, it is barred by the statute of limitations. The applicable New York Statute of Limitations, CPLR §§ 213(2) and 214(4), provide at most a six year period within which plaintiff should have brought an action against defendants, Epstein v. Dennison Mfg. Co., 314 F.Supp. 116 (S.D.N.Y. 1969).

Plaintiff's claim is incorrect that the defendants' alleged activities constitute continuing torts and thus that the statute of limitations is inapplicable. In the Complaint, the plaintiff has enumerated several alleged wrongful activities by the defendants, most of which cannot even arguably be asserted to comprise con-

tinuing torts (App. 10-13). The plaintiff asserts that the defendants:

- (a) committed acts of industrial piracy;
- (b) maliciously interfered with prior business relationships;
- (c) removed information from Permament;
- (d) removed and converted customer lists and trade account lists;
- (e) removed and converted documents relating to the suppliers and manufacturers of raw materials;
- (f) misrepresented and used Permament materials in commencing their own activities;
- (g) breached contractual and fiduciary obligations;
- (h) appropriated Permament inventions;
- (i) committed acts of unfair competition; and
- (j) wrongfully appropriated trade secrets.

As to all of these allegations, it must be remembered that the individual defendants left Permament to form Ceramco in 1959 -- approximately sixteen years ago -- and that Permament filed under Chapter 11 of the Bankruptcy Act in May, 1960 (App. 41) and thus

ceased all business operations at that time.

Also, the breach of a confidential relationship and the theft of trade secrets are specifically held by the authorities not to be continuing torts. In Monolith Portland Midwest Co. v. Kaiser Aluminum & Chemical Corp., 407 F.2d 288, 292-293 (9th Cir. 1969), a breach of a confidential relationship and the misuse of trade secrets were held not to be continuing torts. The Court refused to treat trade secrets as property and stated that it is the confidential relationship between the parties which should be protected.* The Court stated, 407 F.2d at 293:

"The fabric of the relationship once rent is not torn anew with each added use or disclosure, although the damage suffered may thereby be aggravated. The cause of action arises but once, and recovery for the wrong is barred within two years thereafter unless the statute has been effectively tolled."

And, in Shatterproof Glass Corp. v. Guardian Glass Co., 322 F.Supp. 854, 870-871 (E.D. Mich. 1970), aff'd., 462 F.2d 1115 (6th Cir. 1972), a cause of action alleging theft of trade secrets nine years earlier was held barred by both the statute of

*The Supreme Court has also stated that it is the confidential relationship and not "property" which is protected in such cases, E.I. du Pont de Nemours Powder Co. v. Masland, 244 U.S. 100, 102 (1917).

limitations and laches. The Court rejected the continuing tort theory offered by the plaintiff:

"Obviously, the misappropriation of trade secrets is not a continuing offense. The wrong occurs at the time of the improper acquisition." 322 F.Supp. at 869.

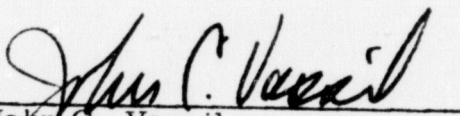
The General Precision case cited by plaintiff is factually distinguishable from the present situation. In that case, the alleged wrongdoer had specifically entered into a contract not to disclose certain subject matter and to use it for only five years. No such contract or legal obligation is involved in the present case.

Moreover, whatever alleged trade secrets existed were specifically disclosed and published when the '982 patent was allowed to issue in 1962. The only alleged trade secrets that plaintiff asserts defendants misappropriated were those relating to "formulas for various compositions and shades or colors of Porcelain" (App. 9). The '982 patent is specifically directed to and discloses these areas. Accordingly, any further obligations that defendants may have had relative to the alleged trade secrets were nullified by the issuance of the patent. Any further rights that plaintiff may have had after that date could only arise under the patent laws, Tempo Instrument, Inc. v. Logitek, Inc., supra.

CONCLUSION

The decisions of the Trial Court granting the defendants' motion to dismiss and dismissing the plaintiff's claims of patent infringement and theft of trade secrets should be affirmed. Both of plaintiff's claims are barred by laches and estoppel.

Respectfully submitted,

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CERTIFICATE OF SERVICE

It is hereby certified that two copies of the BRIEF
FOR DEFENDANTS-APPELLEES were hand-delivered today on
the attorneys for plaintiff-appellant, Rubens & Berger, 535 Fifth
Avenue, New York, New York 10013, this 21st day of May, 1975.

John C. Vassil

